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UNCLAS ROME 004922

SIPDIS

DEPT FOR EUR/WE, EUR/ERA, EB/IFB/OMA
PARIS ALSO FOR USOECD
DEPARTMENT OF TREASURY FOR HULL, OASIA HARLOW, STUART
STATE PLEASE PASS CEA
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FRANKFURT FOR WALLAR
USDOC 4212/ITA/MAC/OEURA/CPD/DDEFALCO

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SUBJECT: AT ELEVENTH HOUR, ITALY APPROVES 2005 BUDGET

[1](#)1. ON DECEMBER 29, PARLIAMENT PASSED THE 2005 BUDGET AFTER A LONG DEBATE TO RECONCILE THE COMPETING DEMANDS OF GOVERNING COALITION PARTNERS FOR PORK; PRIME MINISTER BERLUSCONI FOR A TAX CUT; AND FINANCE MINISTER SINISCALCO FOR A 2005 BUDGET DEFICIT BELOW THE STABILITY PACT THREE-PERCENT BUDGET DEFICIT/GDP CAP. THE 2005 BUDGET WAS PASSED ON A CONFIDENCE VOTE JUST BEFORE THE DECEMBER 31 DEADLINE (BY LAW, BOTH HOUSES OF PARLIAMENT MUST PASS THE BUDGET BY THEN).

[1](#)2. ON THE SURFACE, THE 2005 BUDGET INCORPORATES THE MOST AGGRESSIVE DEFICIT REDUCTION PACKAGE IN THE LAST DECADE AND SEEKS 24 BILLION EURO (OR 1.7 PERCENT OF GDP) IN SPENDING CUTS, AND REVENUE INCREASES TO SHRINK THE DEFICIT/GDP RATIO TO 2.7 PERCENT. THE BUDGET ALSO INCLUDES A STIMULUS PACKAGE BASED ON A 4.2 BILLION EURO TAX CUT. EU, OECD, IMF, AND BANK OF ITALY OFFICIALS HAVE ALL EXPRESSED CONCERN THAT THE BUDGET DEFICIT WILL ACTUALLY EXCEED 3 PERCENT OF GDP NEXT YEAR, AND THAT SUPPLEMENTAL, ONE-OFF MEASURES WILL BE REQUIRED IN 2005, MOST LIKELY AFTER THE SPRING ELECTIONS.

[1](#)3. EMBASSY WILL MAKE TWO COMPREHENSIVE REPORTS ON BOTH THE TAX PACKAGE AND ON THE 2005 BUDGET IN EARLY 2005.

SEMBLER

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